



**COUNTY OF LOS ANGELES  
DEPARTMENT OF AUDITOR-CONTROLLER**

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JOHN NAIMO  
ACTING AUDITOR-CONTROLLER

July 25, 2014

TO: Supervisor Don Knabe, Chairman  
Supervisor Gloria Molina  
Supervisor Mark Ridley-Thomas  
Supervisor Zev Yaroslavsky  
Supervisor Michael D. Antonovich

FROM: John Naimo  
Acting Auditor-Controller

A handwritten signature in dark ink, reading "John Naimo", is written over the printed name and title.

SUBJECT: **QUARTERLY REPORT ON IMPACT OF HEALTH CARE REFORM ON  
COUNTY CASH FLOWS  
(Board Agenda Item 36-A, June 25, 2013)**

On June 25, 2013, your Board instructed the Auditor-Controller (A-C) to report quarterly on the impact of health care reform on the County's cash flow and the Department of Health Services' (DHS) financial performance. This report is for the quarter ended June 30, 2014 and also provides a cash flow summary for Fiscal Year (FY) 2013-14.

The impact of health care reform on the County's FY 2013-14 cash flows is estimated at negative \$220 million and this is associated with two key factors. During the six months ended June 30, 2014, the State reduced the County's health care realignment cash flows by \$88 million. The County General Fund's loans to the Hospitals grew from \$739 million at the end of FY 2012-13 to \$871 million at the end of the FY 2013-14, a net increase of \$132 million. Although there are many variables that can affect the Hospital loan balances, health care reform has introduced cash flow delays which are associated with Medi-Cal approvals and billings. Such delays are being addressed at both the County and State levels and improved cash flow from Medi-Cal is expected in FY 2014-15.

In our separate July 25, 2014 memo to your Board, we discuss the County's overall cash flow. Despite the cash flow delays associated with health services, the County's overall cash position improved during FY 2013-14 and exceeded \$1 billion as of June 30, 2014.

The County is in the process of closing the books for FY 2013-14 and DHS is projecting a surplus of \$94 million. The final results for FY 2013-14 will also establish DHS accounts receivable, which are expected to increase from a year ago due to the Medi-Cal processing delays mentioned above. As final FY 2013-14 revenues and expenditures are recorded for DHS, calculations will be made to determine if withheld State realignment funds are owed back to the County, up to the full amount of \$88 million. Per State statute, the State is not required to return over-withheld realignment funds to the County prior to FY 2016-17. Therefore, realignment funds estimated to be receivable by the County from the State will be recognized as Long-Term Receivables. Since collection is not available to fund the County's FY 2014-15 Budget, such Long-Term Receivables would be offset by reserves.

If you or your staff have any questions, please contact me at (213) 974-8484.

WLW:JN

c: William T Fujioka, Chief Executive Officer  
Sachi A. Hamai, Executive Officer, Board of Supervisors  
Mitchell H. Katz, M.D., Director, Department of Health Services  
Mark J. Saladino, Treasurer and Tax Collector  
Audit Committee  
Public Information Office